

Message Text

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ACTION EUR-12

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AMEMBASSY LUXEMBOURG

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C O R R E C T E D C O P Y (ADDING SUBJ LINE)

E.O. 11652: N/A

TAGS: ECON, BE, OECD

SUBJECT: EDRC ANNUAL REVIEW OF BELGIUM-LUXEMBOURG

REF: USOECD 16843

1. BELGIAN SEVEN-MAN DELEGATION AT JULY 3 REVIEW WILL BE HEADED BY W. BOES, COUNSELOR IN THE ECONOMIC OFFICE OF THE PRIME MINISTER. OTHER MEMBERS WILL BE FROM NATIONAL BANK AND MINISTRIES OF FINANCE, ECONOMIC AFFAIRS, LABOR, AND AGRICULTURE.

2. REVIEW THIS WEEK CATCHES BELGIANS AT A BAD MOMENT. WITH TEMPORARY PRICE FREEZE DUE TO EXPIRE JULY 7, AND WORK BEGINNING ON FORMULATION OF 1976 BUDGET FOR PRESENTATION TO PARLIAMENT THIS FALL, GOVERNMENT OBVIOUSLY AT A CROSSROADS. THERE IS GENERAL AGREEMENT THAT ITS
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ANTI-INFLATION EFFORTS HAVE BEEN INADEQUATE TO DATE, AND

THAT CONTINUED UPWARD SPIRAL OF INDEXED SALARIES POSES UNACCEPTABLE THREAT TO BELGIUM'S VITAL POSITION IN EXPORT MARKETS. DUE TO DELAYS CAUSED IN PART BY GOVERNMENT'S PREOCCUPATION WITH THE F-16 PURCHASE AND PRIME MINISTER'S HEAVY TRAVEL SCHEDULE, HOWEVER, GOVERNMENT WILL ONLY DECIDE ON POST-PRICE FREEZE POLICY LATE THIS WEEK. COMPREHENSIVE FREEZE WILL MOST LIKELY BE REPLACED BY PARTIAL ONE APPLYING TO SOME SECTORS COUPLED WITH SYSTEM OF CASE-BY-CASE EXEMPTIONS IN OTHERS. ALSO, GOVERNMENT ONLY JUST BEGINNING TO NEGOTIATE WITH BUSINESS AND LABOR DELICATE QUESTION OF REVISING MODALITIES OF SALARY-INDEX LINKAGE; AGREEMENT ON THIS TOGETHER WITH ISSUANCE EXPANDED AND MORE COMPREHENSIVE CONSUMER PRICE INDEX WILL TAKE TWO OR THREE MONTHS AT LEAST.

3. IN SUM, BELGIAN DELEGATION WILL BE LARGELY UNABLE TO DISCUSS WHAT THE GOVERNMENT'S ECONOMIC POLICY WILL BE IN COMING MONTHS. IT IS IN GENERAL AGREEMENT WITH DRAFT OECD-EDRC DOCUMENT, ALTHOUGH BELIEVING IT MAY, IN FACT, BE OVERLY OPTIMISTIC ON BELGIAN TRADE, GNP GROWTH, AND BALANCE OF PAYMENTS PROSPECTS FOR 1976.

4. LORE WILL HAND-CARRY SUGGESTED QUESTIONS AND WILL SEE ROGERS AND/OR KOPF MORNING JULY 2. FIRESTONE

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